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UNCLAS STATE 125441

SENSITIVE  
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E.O. 12958: N/A  
TAGS: [EFIN](#) [KNNP](#) [MNUC](#) [IR](#) [GM](#)  
SUBJECT: INCREASING FINANCIAL PRESSURE ON IRAN

REF: A. A) BUCK-SAINT-ANDRE EMAIL  
[1](#)B. 11/21/08

[1](#)1. (U) This is an action request. Please see paragraphs three and four.

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SUMMARY  
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[1](#)2. (SBU) The United Kingdom, France, Germany, Italy, and the U.S. (E4 1) have agreed to pursue additional national measures to increase the pressure on Iran to end its proliferation-sensitive nuclear activities and ensure effective implementation of UNSC and EU sanctions. After meeting on October 9, the EU4 1 identified Iran's deceptive practices as a threat to the international financial sector and a conduit for Iran's proliferation activities. The E4 1 agreed to a joint demarche as a way to inform governments about the risks that Iran poses to the financial industries in their jurisdictions. Posts are requested to coordinate the delivery of the attached nonpaper to host governments with the local representatives of the United Kingdom, France, Germany, and Italy.

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OBJECTIVES/ACTION REQUEST  
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[1](#)3. (SBU) Washington requests Posts deliver the talking points in paragraph 5 to appropriate host government officials in the foreign and finance ministries, as well as Central Banks, to host governments. To maximize the impact of this demarche, delivery should be coordinated with the local representatives of the United Kingdom, France, Germany, and Italy. For Bern: Washington defers to Post with respect to the logistics of this demarche and coordination with French, German, Italian, and UK Posts in Bern; Washington, however, concurs with Post suggestion in REF A that one of the European likeminded would be best for scheduling the meeting. For GCC posts: other GCC countries in addition to Oman and the UAE will be approached by our EU4 partners.

[1](#)4. (SBU) Posts are requested to deliver the non-paper in paragraph 6 as a U.S. paper on Iran's deceptive financial

practices at the same time as the delivery of the talking points in paragraph 4. Post should pursue the following objectives:

-- Remind host governments that full implementation of UN Security Council Resolutions (UNSCRs) concerning Iran by all members of the international community is critical to addressing the proliferation threat posed by Iran and that many European countries and firms have determined that the risk of doing business with Iran is too great and, as a result, have reduced their business with Iran.

-- Note that Iran's use of front companies and other deceptive practices in commercial and financial activities makes it difficult to know who is involved in a transaction, or the final end user or ultimate use of any goods.

-- Note that within the scope of UNSCR 1747, States are required to take measures to prevent the provision to Iran of any financial assistance, or services related to the transfer of prohibited items.

-- Urge host governments to ensure that their financial institutions do not provide services to any entities that are engaged in proliferation-related activities, specifically individuals and entities designated under UNSC resolutions 1737, 1747 or 1803, as well as those designated by the USG under Executive Orders 13224 and 13382.

-- Call upon host governments to implement UNSCR 1803's call for vigilance over the activities of their financial institutions with Iranian banks, including by adopting concrete financial vigilance measures, such as those adopted by the European Union (Common position 2008/652/CFSP of 7 August 2008, Regulation 2008/1110/EC of 10 November 2008), and/or those recommended by the Financial Action Task Force's (FATF) in its October guidance on UNSCR 1803.

-- Encourage host governments to warn their financial institutions about the risks of doing business with Iran, such as the Iranian regime using its state-owned firms to support proliferation-related activities. The Iranian state-owned banks also use deceptive financial practices to support this illicit activity.

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TALKING POINTS  
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15. (SBU) BEGIN TALKING POINTS

-- Full implementation of UN Security Council Resolutions (UNSCRs) concerning Iran by all members of the international community is critical to addressing the threat posed by Iran.

UNSCR 1737 (2006) requires States to take measures to prevent the provision to Iran of any financial assistance or services (including brokering) related to the transfer, manufacture, or use of prohibited items. UNSCR 1747 (2007) calls upon States and international financial institutions not to enter into new commitments for providing financial assistance to the Government of Iran, except for humanitarian and developmental purposes. UNSCR 1803 (2008) calls on States to exercise vigilance over the activities of financial institutions in their territories with all banks domiciled in Iran and in providing financial support for trade with Iran, including insurance, in order to avoid contributing to Iran's nuclear and missile programs. Finally, UNSCRs 1737, 1747 and 1803 require States to freeze the assets of and ensure that no economic resources are provided by their nationals or from their territories to individuals or entities designated pursuant to these resolutions for their involvement in Iran's nuclear or ballistic missile programs.

-- We have been discussing with the international banking sector the importance of implementation of the Iran-related UNSCRs, as this sector is vulnerable to the risk of unwittingly facilitating Iranian proliferation activities. We draw your attention to the reputational risk involved as well

as the existing penalties in case of illicit activities.

-- Financial vigilance measures are extremely important to defend against such risks. Key examples of measures targeted specifically against proliferation finance and Iran, including the EU Common position 2008/652/CFSP of 7 August 2008, Regulation 2008/1110/EC of 10 November 2008, and FATF guidance on implementation of financial measures contained in ¶1803.

-- We are concerned that the financial sector is being exploited and used to facilitate activities prohibited by the UN, or that Iranian entities designated by the UN are using deceptive practices to evade sanctions or mask other activities of concern.

-- To avoid providing financial services prohibited by the UN Security Council, we ask that you encourage your financial institutions to review among other things, services they may provide to Iranian companies and projects in Iran, as well as correspondent banking relationships with Iranian banks and financial institutions controlled by Iranian entities (cf. in the EU: Common position 2008/652/CFSP of 7 August 2008, Regulation 2008/1110/EC of 10 November 2008).

END TALKING POINTS

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NON-PAPER  
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¶6. (SBU) BEGIN NON-PAPER

Iran has a history of using deceptive techniques to evade sanctions, including by obscuring the involvement of designated Iranian entities in transactions or accounts.

-- Using non-UNSC sanctioned entities: Entities not currently subject to UN sanctions have acted on behalf of UNSC-designated entities.

-- Leading up to the adoption of UN Security Council Resolution 1747 (March 2007), which requires States to freeze assets of Iran's Bank Sepah, the Central Bank of Iran abused its relationships with reputable financial institutions to shield Bank Sepah's assets from the impact of impending sanctions.

-- Other Iranian banks also helped Bank Sepah evade sanctions subsequent to its Security Council designation. Following Bank Sepah's designation, Bank Melli took precautions not to identify Bank Sepah in transactions.

-- We have information indicating that Bank Mellat has facilitated the movement of millions of dollars for Iran's nuclear program since at least 2003.

-- Use of front companies: Entities associated with Iran's nuclear and missile programs utilize an extensive network of front companies to conceal the true ownership of funds and end-use of commercial goods. The UN Security Council designated several entities in UNSCRs 1737, 1747, and 1803 explicitly because of their role as front companies in support of Iran's nuclear or missile programs.

-- Through its front companies, the U.S.-designated Islamic Revolutionary Guard Corps (IRGC) is involved in a diverse array of activities, including petroleum production and major construction projects across Iran.

-- These front companies enable the regime to obtain dual-use technology and materials from suppliers that would not typically ship to designated entities.

-- Mizan Machine Manufacturing Group is one of several front companies utilized by Iran's Aerospace Industries Organization (AIO) in commercial transactions. In particular, Mizan Machine Manufacturing Group has been used

by AIO to acquire sensitive material for Iran's ballistic missile program. It has also acted on behalf of the Shahid Hemmat Industrial Group (SHIG), a subordinate entity of the AIO, which is listed in UNSCR 1737 for its direct role in advancing Iran's ballistic missile program.

#### Role of Iranian Banks

-- Transactions for proliferation entities: Iranian banks process transactions for U.S. - and UNSC-designated entities.

-- We have information indicating that entities owned or controlled by the IRGC or IRGC Qods Force use Bank Melli for a variety of financial services. We have information indicating that from 2002-2006, Bank Melli was used to send at least \$100 million to the Qods Force. The IRGC was designated by the U.S. in October 2007 as an entity of proliferation concern, and numerous IRGC entities and individuals have been designated in Iran-related UNSCRs for their involvement in Iran's nuclear or ballistic missile programs. Bank Melli has been designated by the US and EU, and was identified as being of potential concern in UNSCR ¶1803.

-- We have information indicating that Bank Mellat services and maintains Atomic Energy Organization of Iran (AEOI) accounts, mainly through AEOI's financial conduit Novin Energy Company. Novin Energy Company was designated in UNSCR ¶1747.

-- Removing identifying information: Iranian state-owned banks have requested that references to Iran be removed from international transactions.

-- The Central Bank of Iran and Iranian commercial banks have requested that their names be removed from global transactions in order to make it more difficult for intermediary financial institutions to determine the true parties in the transactions.

-- When processing the transactions for the IRGC and IRGC Qods Force, Bank Melli requested that its name be removed from financial transactions.

#### Expanding Iran's global banking presence and financial networks

As major banks worldwide withdraw or reduce their banking ties to Iran, Tehran is looking to expand existing relationships, establish new ones, and develop new techniques to disguise its involvement in transactions.

-- New banking networks: Iran has recently attempted to establish new branches of Iranian banks, joint banking ventures, and private Iranian banks. Iran is attempting to replace lost banking operations overseas and may judge that U.S. and foreign actors are less likely to scrutinize banks not directly owned by the Iranian government in order to circumvent U.S., EU and UN sanctions. As a result, companies that do business with Iranian banks may unwittingly facilitate proliferation-related transactions.

-- In March 2008, the Export Development Bank of Iran established a branch in Venezuela.

-- In June 2008, Iran and Venezuela agreed to establish a joint bank.

-- The Germany-based Iranian-owned bank Europaisch Iranische Handelsbank (EIHB) opened branches in Tehran and Kish Island in June 2008.

-- In May 2008, Iran and Belarus signed a memorandum to raise economic contacts, which included increasing banking ties.

New techniques: Designated entities are developing other techniques to adapt their business practices to hide their

involvement in transactions.

-- The Islamic Republic of Iran Shipping Lines (IRISL) has employed the use of generic terms to describe shipments so as not to attract the attention of shipping authorities and created and made use of cover entities to conduct official, IRISL business.

-- For example, in 2007, IRISL transported a shipment of a precursor chemical potentially destined for use in Iran's missile program. The end user of the chemical was Parchin Chemical Industries, an entity designated in UNSCR 1747 as a subordinate of Iran's Defense Industries Organization (DIO).

In summary, Iran's failure to suspend its proliferation sensitive nuclear activities in violation of UN Security Council Resolution 1737, coupled with Iran's use of deceptive financial practices to evade sanctions, puts responsible financial institutions at risk of unwittingly facilitating proliferation-related financial transactions or transactions that are in violation of multilateral sanctions.

#### Recommended actions:

In order to protect their financial institutions, countries should take steps to implement the Financial Action Task Force's guidance for the implementation of UNSCR 1803's call on States to exercise vigilance over activities of financial institutions in their territories with banks domiciled in Iran, and their branches and subsidiaries abroad.

As highlighted in this guidance, steps to increase vigilance over these activities, should include requirements for financial institutions to gather additional information when conducting transactions involving Iranian banks and to carefully review and re-assess their correspondent relationships with Iranian financial institutions.

END NON-PAPER

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REPORTING DEADLINE  
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17. (U) Posts should report results within seven business days of receipt of this cable. Please slug replies for ISN, T, TREASURY, and NEA. Please include SIPDIS in all replies.

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POINT OF CONTACT  
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18. (U) Washington points of contact for follow-up information are Anthony Ruggiero, ISN/CPI, (202) 647-5181, ruggieroaj@state.sgov.gov and Kevin McGeehan, ISN/CPI, (202) 647-5408, McGeehanKJ@state.sgov.gov.

19. (U) Department thanks Post for its assistance.  
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